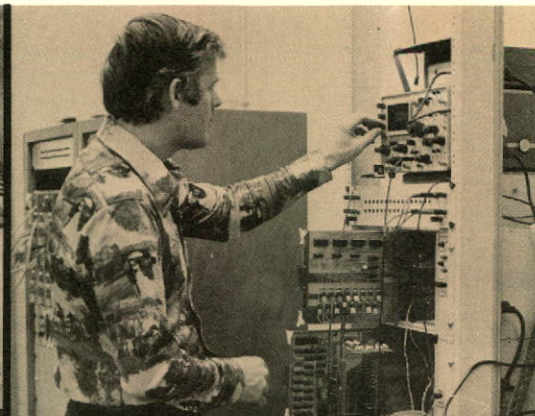
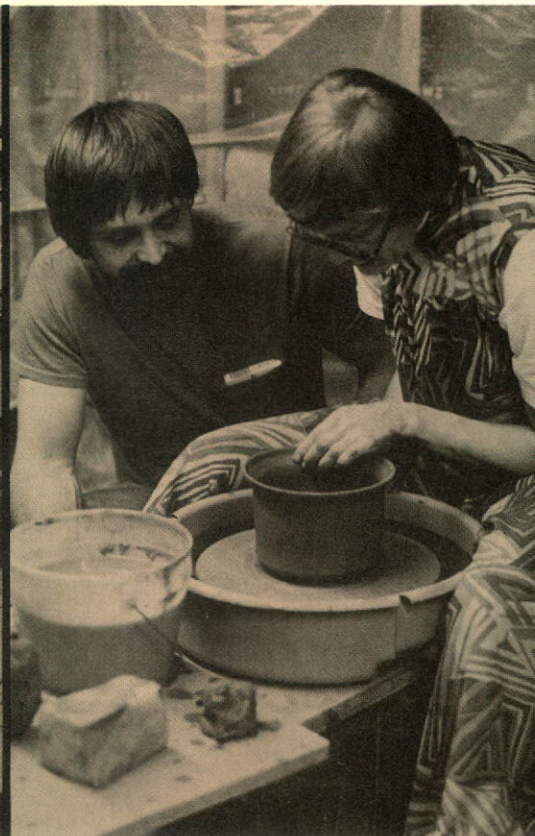


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ALBERTA OPPORTUNITY COMPANY ANNUAL REPORT

April 1, 1977 to March 31, 1978



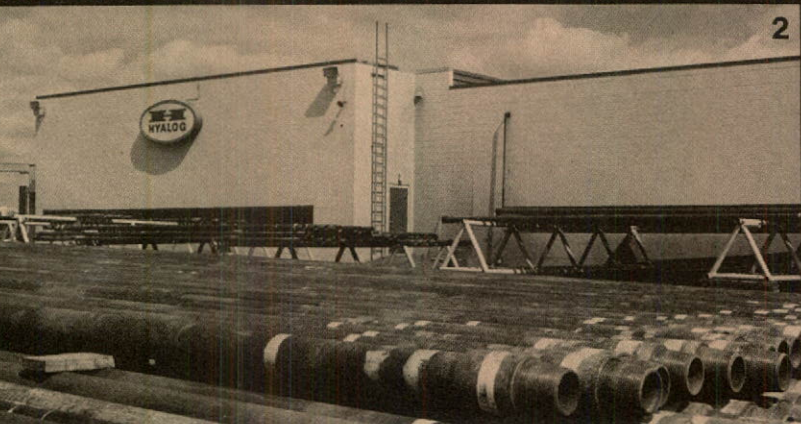
The Alberta Opportunity Company makes loans and loan guarantees to companies in a variety of business and industries. The photographs used in this annual report are intended to illustrate the wide range of enterprises.

Front Cover	Transport Company/Warehouse
Front Cover	Recording Studio
Front Cover	Ceramics
Front Cover	Electronic Controls
Front Cover	Clothing Manufacturer
1	Restaurant
2	Well Servicing Company
3	Plastics Extrusions
4	Bakery
5	Furniture Manufacturing
6	Knitting Mill
7	Steel Forging
8	Raquet Ball Courts
9	Oilfield Services Companies
10	Forms Printing
11	Court Reporting
12	Seismic Equipment Manufacturer
13	Film Studio
14	Meat Cutting

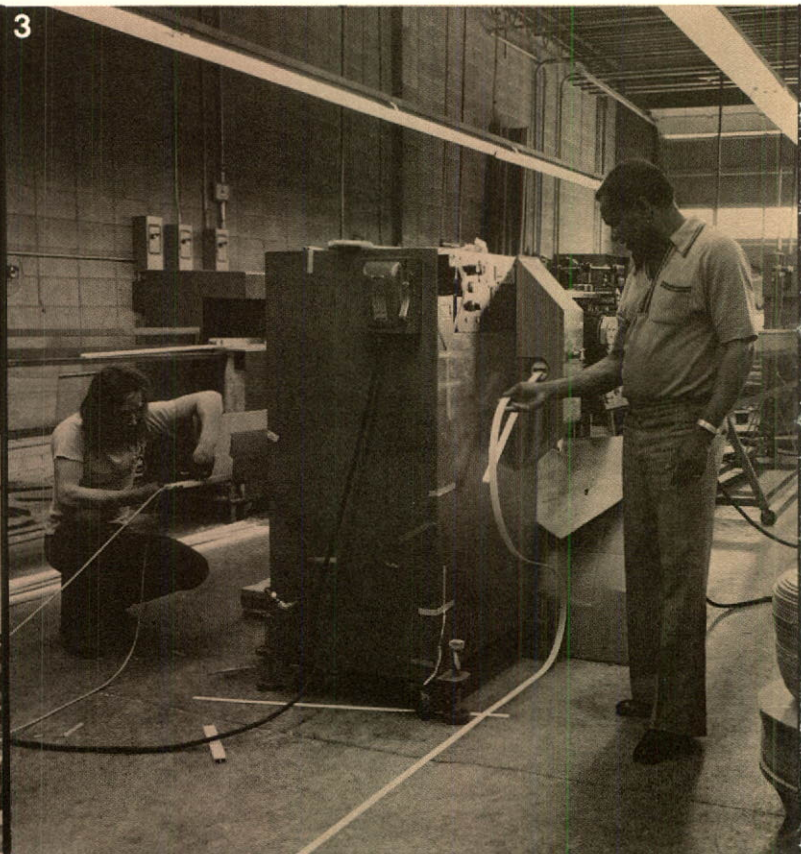
Alberta
OPPORTUNITY COMPANY



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2



**THE ALBERTA OPPORTUNITY COMPANY
A CROWN CORPORATION, RESPONSIBLE TO THE
LEGISLATURE OF ALBERTA, THROUGH THE MINISTER
OF BUSINESS DEVELOPMENT & TOURISM
THE HON. ROBERT DOWLING**

BOARD OF DIRECTORS

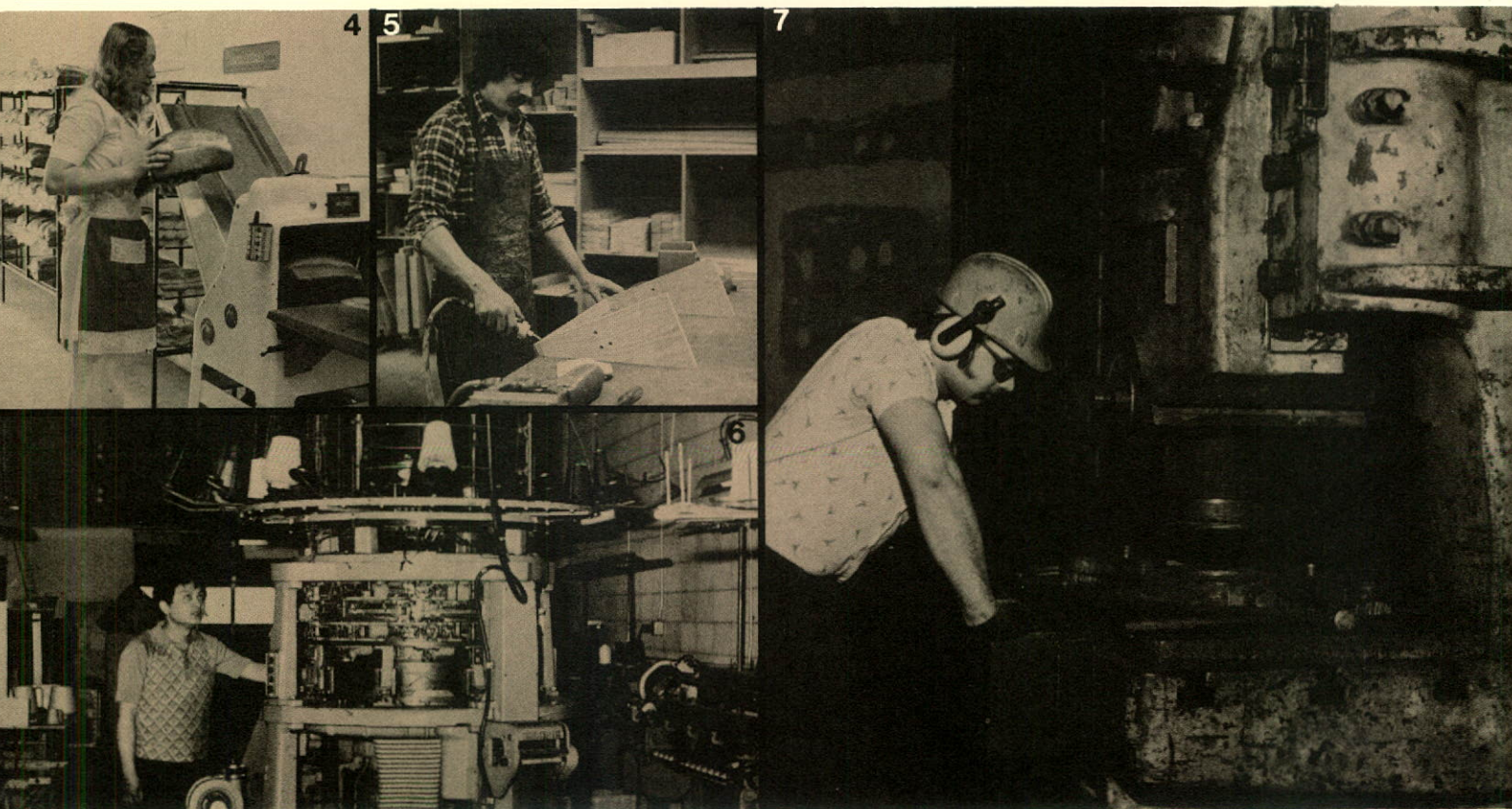
R W Chapman Edmonton CHAIRMAN
E A Clarke Ponoka MANAGING DIRECTOR
G Buchanan High Prairie
Mrs B Fowler Camrose
C T Heckbert Vermilion
R J Jensen Edson
N A Lawrence P Eng Edmonton
D E Lewis Q C Calgary
L C Ordze Camrose
N F W Picard Edmonton
J Wilders Ponoka

MC GILL LIBRARY
318170 JUL 26 73

GOV. DOCS. DEPT.

"There is hereby established a fund under the name of the Alberta Opportunity Fund the total amount of which shall not exceed \$100,000,000, and which shall be held and administered by the Company with the object of promoting the development of resources and the general growth and diversification of the economy of Alberta."

(The Alberta Opportunity Fund Act, June 2, 1972, amended November 4, 1974.)



Annual Net Authorizations

\$

1974

118

9,388,268

1975

191

25,587,948

1976

211

28,022,864

1977

268

17,531,964

1978

296

23,285,045

Outstanding Commitments

1974

289

37,670,698

1975

434

59,406,710

1976

571

76,449,275

1977

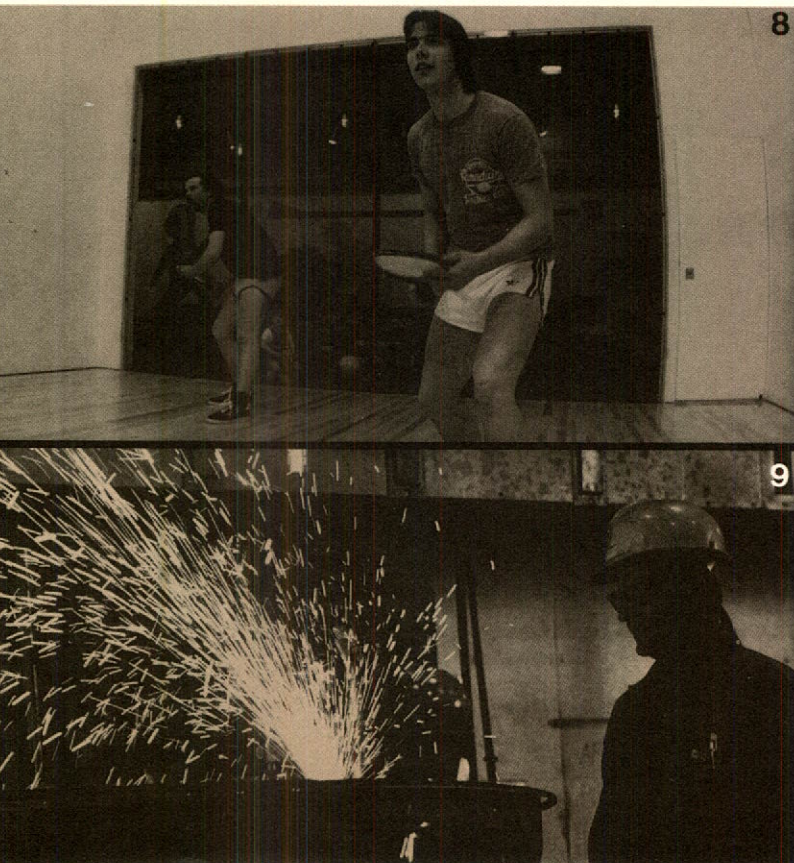
746

83,556,591

1978

880

91,810,040



8



10

9

MANAGING DIRECTOR'S REPORT

March 31, 1978 marks the completion of five fiscal years of activity by the Alberta Opportunity Company. We began with a loan portfolio of just over \$15,000,000 which had been transferred from our predecessor, the Alberta Commercial Corporation, and ended the five year period with \$91,810,040 outstanding in loan and guarantee commitments. This latter figure represents 880 Alberta businesses in 236 communities of our Province.

Since April 1, 1973, we have authorized 1,084 loans and guarantees, totalling \$103,816,000 to small Alberta businesses. To date, more than 95% of these businesses continue to operate successfully. Many have repaid their loans in full. **Yet, each of these borrowers had initially been refused financing by one or more conventional lending institutions.**

About one-third of our loans go to brand new businesses, and another third go to businesses in their first year after start-up. These businesses have no "track record" to show to other lenders. In most cases as well, the size of the owners' investment is less than would be considered desirable by conventional yardsticks. Just under 70% of AOC borrowers are located outside Calgary and Edmonton, in the smaller centres of Alberta: if they should fail, it might be quite difficult to find others in their community willing to purchase their assets at a fair price, and this is a significant weakness to those lenders who must require to see that their depositors' funds are fully "secured".

The substantial majority of AOC loans are undersecured if one applies conventional standards of liquidation values of tangible assets. However, we believe our real security lies in the ability and determination of the young entrepreneurs with whom we are dealing. We work with them to ensure that their budgets and plans are well developed before they start, and that they have a strong personal commitment to meeting and beating the problems that will arise in the future.

One such entrepreneur, Les Close, of Nampa, in a recent

interview with his local newspaper, put it this way: "The loan does not really scare me," said Close. "It would scare me if I had to do it myself, but with a partner who knows the work and a wife who is right behind me on this, I can do it. The loan was actually not that difficult to get. There is a lot of ground work to cover, but the money is there. They (AOC) pretty well want your blood on a platter before they give you the money," he said, adding "The regulations are set up to make you think about what you are doing and whether it will work."

In the past year, just over half the applications to AOC resulted in loan or guarantee approvals. Could we have done more? Perhaps we could: if 5% of those approved eventually fail, then maybe 5% of those declined might eventually have succeeded. The two largest limiting factors have been lack of management experience or competence, and lack of investment by the entrepreneur. Although the substantial majority of those who do borrow from us are by no means fully qualified as managers, and have much to learn "on the job", there is nonetheless a basic minimum level of managerial skill needed, and to drop below this would be foolhardy. Lack of investment by the owner forces a correspondingly heavier debt burden on the business, and that in turn may force a need to earn a very high level of profit — which may not be a reasonable expectation. In these borderline situations we recognize too that undue latitude on our part may result in the wiping out of a young entrepreneur's hard-won savings and in losses on the part of other businesses dealing with him.

In January 1978 we started three new branch offices, in St. Paul, Edson and Medicine Hat, to improve our service in the regions centred by these communities. In addition, AOC staff make regular visits to nearly 60 other communities of Alberta. We also appreciate the assistance given by the 10 offices of the Regional Services Branch of the Department of Business Development & Tourism who also work with businesses in smaller communities, and assist in forwarding their applications to us.



NET FINANCING AUTHORIZATIONS

FOR THE YEAR ENDED MARCH 31

	1974	1975	1976	1977	1978
Number	118	191	211	268	296
Year to Year % increase	—	% 61.9	% 10.5	% 27.0	%10.5
Dollar value (000's)	\$ 9,388	25,588	28,023	17,532	23,285
Year to Year % increase	—	% 172.6	% 9.5	%(37.4)	%32.8
Average amount	\$79,562	133,968	132,810	65,418	78,666
Median amount	\$42,857	44,167	42,045	41,429	46,818

The number of loans and guarantees made continues to show a steady rate of increase. This rate of increase would be substantially higher, were it not for the increased activity, and greater readiness to accept risk, on the part of private sector financial institutions. The strength of our economy has made Alberta a preferred locale for placement of funds by national institutions.

GEOGRAPHIC DISTRIBUTION OF LOAN AUTHORIZATIONS (IN \$)

YEAR ENDED		NORTHERN ALBERTA	EDMONTON	CENTRAL ALBERTA	CALGARY	SOUTHERN ALBERTA
March 31, 1974	%	26.7	10.5	21.7	17.3	23.8
March 31, 1975	%	30.8	18.2	19.6	4.8	26.6
March 31, 1976	%	18.9	11.5	21.9	32.9	14.8
March 31, 1977	%	29.6	17.4	23.5	6.9	22.6
March 31, 1978	%	32.0	10.6	22.2	14.2	21.0
5 Year Total	%	26.2	15.0	21.0	16.2	21.6

As noted earlier, it is in our smaller communities that Alberta businesses experience greatest difficulty in arranging financing through conventional lending institutions, and it is for this reason that the substantial majority of our financing is provided outside the two metropolitan centres.

SIZE DISTRIBUTION OF FINANCING AUTHORIZATIONS

FOR THE YEAR ENDED MARCH 31

	1974	1975	1976	1977	1978
\$0 to 50,000	% 54	50	58	59	52
\$50,001 to 100,000	% 25	19	18	24	29
\$100,001 to 200,000	% 6	11	10	10	10
\$200,001 to 500,000	% 15	18	9	7	8
\$500,001 +	% —	2	5	—	1

Although the effect of inflation is apparent, it is the loans under \$50,000 which continue to account for the majority of our authorizations.

FINANCING BY PROJECT AND SOURCE

PROJECT	YEAR ENDED MARCH 31, 1977		YEAR ENDED MARCH 31, 1978	
Land	\$ 2,086,068	8.4%	\$ 3,207,406	9.2%
Buildings	9,215,740	37.3%	13,740,553	39.5%
Machinery & Vehicles	6,387,058	25.8%	7,280,242	20.9%
Working Capital	5,589,333	22.6%	8,136,451	23.4%
Miscellaneous	1,453,873	5.9%	2,419,973	7.0%
	<u>24,732,072</u>		<u>34,784,625</u>	
FINANCING				
AOC - Loan	16,231,704	65.6%	21,858,045	62.8%
AOC - Guarantee	1,300,250	5.3%	1,427,000	4.1%
New Equity Investment	4,778,305	19.3%	6,179,315	17.8%
Other Lenders	1,671,985	6.8%	3,811,002	11.0%
Working Capital	391,728	1.6%	360,751	1.0%
Miscellaneous	358,100	1.4%	1,148,512	3.3%
	<u>\$ 24,732,072</u>		<u>\$ 34,784,625</u>	

LOSS EXPERIENCE

Dealing as we do with those businesses which have been declined by conventional lending institutions, there tends to be an expectancy that we might experience a high rate of loss on our loans. Over the past five years, our specific reserve for loss, on accounts known to be in difficulty, has remained remarkably stable at 5% of our balances outstanding. While this may seem to be a surprisingly low figure to some, it is in fact about five times the size of the reserves usually required by banks and similar private sector institutions. In addition to these specific reserves, we have provided a further reserve which corresponds to 3% of the balances outstanding.

Overall, our interest income has been sufficient to cover all our operating expenses, plus the costs of write-offs and establishment of additional reserves, and still yield a small margin of profit. The capital funds which are drawn from the tax payments of the citizens of Alberta thus remain unimpaired.

ALBERTA OPPORTUNITY COMPANY BALANCE SHEET AS AT MARCH 31, 1978

ASSETS

	1978	1977
Cash	\$ 200	\$ 266
Funds held in trust account	4,000	—
Accounts receivable	7,183	6,759
Prepaid expenses	9,750	7,203
	21,133	14,228
Loans and accrued interest receivable	73,581,210	66,078,520
Less: Allowance for doubtful accounts (Notes 2 & 3)	5,886,373	5,303,975
	67,694,837	60,774,545
Industrial incentive loans receivable (Note 4)	1,406,173	1,739,635
Less: Allowance for possible forgiveness	1,406,173	1,739,635
	—	—
Equipment (at cost less accumulated depreciation of \$22,506; \$16,162 - 1977)	34,590	29,253
Leasehold improvements (at cost less accumulated amortization of \$35,580; \$14,154 - 1977) (Note 5)	452,139	463,554
Miscellaneous assets (Note 6)	1	1
	486,730	492,808
Trust assets (Note 9)	93,197	86,033
	\$68,295,897	\$61,367,614

LEGISLATIVE



ASSEMBLY

ALBERTA

OFFICE OF THE PROVINCIAL AUDITOR

AUDITOR'S REPORT

To the Board of Directors
of the Alberta Opportunity Company

I have examined the balance sheet of the Alberta Opportunity Company as at March 31, 1978 and the statement of income and expenses for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Company as at March 31, 1978 and the results of its operations for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.



Provincial Auditor

EDMONTON, ALBERTA APRIL 28, 1978

LIABILITIES

	1978	1977
Bank	\$ 344,846	\$ 373,051
Accounts payable	882,602	371,480
Holdbacks and accrued interest payable	122,149	21,730
	<u>1,349,597</u>	<u>766,261</u>
Advances from Province of Alberta:		
Balance, beginning of year	59,289,000	53,569,000
Add: Advances received	16,284,000	14,803,498
Less: Advances repaid	(10,499,462)	(9,083,498)
Balance, end of year	<u>65,073,538</u>	<u>59,289,000</u>
Retained earnings:		
Balance, beginning of year	1,226,320	250,299
Add: Net income - Statement B	553,245	976,021
Balance, end of year	<u>1,779,565</u>	<u>1,226,320</u>
Trust liabilities (Note 9)	93,197	86,033
	<u>\$68,295,897</u>	<u>\$61,367,614</u>

**ALBERTA OPPORTUNITY COMPANY
SCHEDULES OF EXPENSES
FOR THE YEAR ENDED MARCH 31, 1978**

SCHEDULE 1

STAFF:

	1978	1977
Salaries and wages	\$ 1,188,857	\$ 1,048,447
Pension plans	90,721	92,068
Unemployment insurance	14,131	12,268
Medical and group insurance	10,778	7,812
Workers' Compensation Board	2,445	2,176
Educational assistance	830	950
Recruitment expense	1,962	666
Relocation expense	59,943	19,128
	<u>\$ 1,369,667</u>	<u>\$ 1,183,515</u>

SCHEDULE 2

OTHER MANPOWER:

Board of Directors' fees	\$ 26,400	\$ 28,180
Professional and other fees:		
Legal	227,871	162,458
Consultants	65,597	44,648
Bonded agents	—	120
Credit reporting agencies	4,943	6,847
	<u>\$ 324,811</u>	<u>\$ 242,253</u>

SCHEDULE 3

COMMUNICATIONS:

Telephone and telegraph	\$ 29,136	\$ 27,599
Mail and messenger service	6,024	4,183
Travel	89,706	81,906
Advertising	53,270	40,535
	<u>\$ 178,136</u>	<u>\$ 154,223</u>

SCHEDULE 4

Other Operating Expenses:

Occupancy costs	\$ 123,564	\$ —
Data Processing	5,315	4,500
Office supplies and services	30,161	22,239
Vehicle and equipment	19,792	13,266
Fees and subscriptions	5,258	6,753
Depreciation	6,757	5,510
Insurance	4,817	4,701
Miscellaneous	1,194	3,120
	<u>\$ 196,858</u>	<u>\$ 60,089</u>

ALBERTA OPPORTUNITY COMPANY
STATEMENT OF INCOME AND EXPENSES
FOR THE YEAR ENDED MARCH 31, 1978

	1978	1977
Income:		
Interest revenue	\$ 6,584,114	\$ 5,566,130
Guarantee fees	14,386	23,996
Miscellaneous	5,000	5,000
	<u>6,603,500</u>	<u>5,595,126</u>
Expenses:		
Interest expense (Note 10)	1,161,747	597,033
Staff - Schedule 1	1,369,667	1,183,515
Other manpower - Schedule 2	324,811	242,253
Communications - Schedule 3	178,136	154,223
Other operating expenses - Schedule 4	196,858	60,089
Loss on leasehold improvements held for sale (Note 5)	33,958	26,757
	<u>3,265,177</u>	<u>2,263,870</u>
Net income before the undernoted:	3,338,323	3,331,256
Provision for doubtful accounts (Note 3)	(3,264,690)	(2,361,966)
Bad debt recoveries	146,150	6,731
Extraordinary income (Note 4)	333,462	—
Net income	\$ 553,245	\$ 976,021

ALBERTA OPPORTUNITY COMPANY
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 1978

NOTE 1 AUTHORITY

The Alberta Opportunity Company operates under the authority of The Alberta Opportunity Fund Act, Chapter 11, Statutes of Alberta 1972.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES

Allowance for doubtful accounts:

The Company has adopted the policy of providing for loss on specific accounts known to be in difficulty at March 31, as well as providing for loss on other accounts which can reasonably be expected to encounter problems.

Fixed assets:

Prior to March 31, 1977 office accommodations, related land and some furnishings were owned by the Province of Alberta and provided to the Company at no cost. Effective April 1, 1977 the Company has leased premises from the Province and related occupancy costs are included in the financial statements.

Depreciation:

Furnishings and equipment owned by the Company are depreciated on a diminishing balance basis at 20% per annum.

NOTE 3 ALLOWANCE FOR DOUBTFUL ACCOUNTS

An analysis of the account is as follows:

	1978	1977
Balance, beginning of year	\$5,303,975	\$3,225,116
Accounts written off	(2,682,292)	(288,621)
Provision	3,264,690	2,361,966
Transfer from industrial incentive loans	—	5,514
Balance, end of year	\$5,886,373	\$5,303,975

NOTE 4 INDUSTRIAL INCENTIVE LOANS

These loans were made under authority of The Industrial Development Incentives Act which provided that, with the approval of the Lieutenant Governor in Council, repayment of the loans may be forgiven in whole or in part, providing that no loan may be wholly forgiven before the expiration of five years from the date money was first advanced under the loan. During this five year period, no interest is charged on a loan and no repayment of principal is required providing a borrower continues in operation and meets certain other conditions.

During the year ended March 31, 1978 the Lieutenant Governor in Council forgave 8 loans totalling \$333,462 as to principal amount and also forgave the indebtedness assumed by the Company to the Provincial Treasurer for the liability and resultant interest charges totalling \$68,131 incurred on the advance of the incentive loan funds. The forgiven loan amount is shown as extraordinary income.

NOTE 5 LEASEHOLD IMPROVEMENTS

The Company constructed a 21,360 sq ft commercial aircraft hangar at Slave Lake, Alberta for the subsequent lease or sale to a client. This client subsequently declared bankruptcy and rental operations of the premises will be conducted until arrangements for its sale are complete. For the year ended March 31, 1978 total income from the facility amounted to \$9,715 and during the same period \$43,673 of expenses were incurred resulting in an operating loss for the period of \$33,958.

NOTE 6 MISCELLANEOUS ASSETS

From time to time the Company may acquire certain assets of its borrowers whose businesses have failed. During the time these assets are held they are stated collectively at a nominal amount of \$1.

NOTE 7 CONTINGENT LIABILITIES

Guarantees of bank loans:

The Company is contingently liable as a guarantor of bank loans aggregating \$1,142,460 at March 31, 1978 (\$2,361,460 at March 31, 1977).

Engineering fees:

The Company is contingently liable for the fees of a professional engineering firm in the amount of \$30,029. The Company has filed a statement of claim in the Supreme Court of Alberta in the amount of \$159,383.

Legal actions:

There are 7 claims totalling approximately \$3,525,599 against the Company and/or its various receiver agents. The Company is advised by legal counsel that a valid defense exists in each instance and no loss is anticipated.

NOTE 8 COMMITMENTS

Authorizations to be disbursed at March 31 are as follows:

	1978	1977
Loans	\$14,701,377	\$12,781,830
Guarantees	945,000	500,000
Inventory contracts	—	30,955
	\$15,646,377	\$13,312,785

NOTE 9 TRUST ASSETS AND LIABILITIES

Under the authority of Order in Council 989/71 the Alberta Commercial Corporation, a predecessor organization, administered funds deposited with the Company by the Human Resources Development Authority for the creation of employment opportunities for local people including those of native origin.

The trust funds under administration at March 31, are as follows:

	1978	1977
Advances from the Province of Alberta	\$ 229,970	\$ 229,970
<i>Deduct deficit:</i>		
Deficit balance, beginning of year	143,937	149,456
<i>Add expenses:</i>		
Provision for doubtful accounts	—	(1,782)
Legal fees	—	3,234
	143,937	150,908
Deduct earnings	7,164	6,971
Deficit balance, end of year	136,773	143,937
Trust funds due to the Province of Alberta	\$ 93,197	\$ 86,033
Trust assets consist of:		
Cash and short term deposits	\$ 59,377	\$ 52,184
Loans receivable	33,820	33,849
	\$ 93,197	\$ 86,033

NOTE 10 INTEREST EXPENSE

Advances from the Province of Alberta in excess of \$50,000,000 are subject to interest charges in accordance with rates established by the Treasury Board of the Province of Alberta.

NOTE 11 ANTI-INFLATION PROGRAM

Pursuant to an agreement between the Government of the Province of Alberta and the Government of Canada, the Company is subject to guidelines as specified in The Anti-Inflation Act with respect to compensation paid to its employees.

NOTE 12 COMPARATIVE FIGURES

The 1977 comparative figures have been restated where necessary to conform to 1978 presentation.

Ponoka

PO Box 1860
5110 - 49 Avenue
T0C 2H0
Telephone: (403) 783-4481

Calgary Branch

904 John J Bowlen Building
620 - 7th Avenue SW
T2P 0Y8
Telephone: (403) 261-6437

Edmonton Branch

14th Floor, Capitol Square
10065 Jasper Avenue
T5J 3B1
Telephone: (403) 427-2140

Edson Branch

PO Box 2940
T0E 0P0
Telephone: (403) 723-6260

Grande Prairie Branch

102 Provincial Building
9905 - 100th Street
T8V 2L8
Telephone: (403) 539-2220

Lethbridge Branch

254 Provincial Building
200 - 5th Avenue South
T1J 4C7
Telephone: (403) 329-5474

Medicine Hat Branch

320 Provincial Building
770 - 6th Street SW
T1A 4J6
Telephone: (403) 529-3594

St Paul Branch

4th Floor, Provincial Building
PO Box 1990
T0A 3A0
Telephone: (403) 645-4475

**Managing Director
Ed Clarke**

**Deputy Managing Director — Loans
Roy Parker**

**Deputy Managing Director — Administration
Brian Parsk**

**Credit Superintendents
Art Hahn Jim Anderson**

**Director — Support Services
Rod Kneller**

**Comptroller
Jim Gill**

**Director — Legal & Disbursements
Amir Datoo**

Branch Managers

**Edmonton
John Kennedy**

**Calgary
Dick Demers**

**Grande Prairie
Wayne Blair**

**Edson
John Ablett**

**St. Paul
Frank Rogers**

**Lethbridge
Don Trenerry**

**Medicine Hat
Gordon Taylor**

**General Manager
Business Development
Fred Larson**

